

CITY OF EARLVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2009

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CITY OF EARLVILLE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Wheeler	Mayor	Jan. 2010
Mark Salow	Mayor Pro tem	Jan. 2010
Tom Salow	Council Member	Jan. 2010
Doug Dabroski	Council Member	Jan. 2010
Ed Gibbs	Council Member	Jan. 2012
Bob Peters	Council Member	Jan. 2012
Linda Gaul	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlville, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Earlville's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund

information of the City of Earlville as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

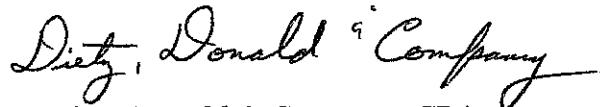
In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2009 on our consideration of the City of Earlville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Earlville's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2008, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

September 18, 2009



Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF EARLVILLE

Box 188

Earlville, Iowa 52041

INCORPORATED IN 1882

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Earlville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Bear in mind that Chapter 11 of the Code of Iowa requires that the City have its financial statements audited once every four years. Therefore any financial information presented for 2008 has not been audited.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 22.9%, or approximately \$ 119,000, from fiscal 2008 to fiscal 2009. Much of this increase was due to borrowing \$ 90,000 to purchase an ambulance.
- Disbursements of the City's governmental activities increased 15.7% or approximately \$ 79,000, in fiscal 2009 from fiscal 2008. Public safety increased approximately \$ 137,000, while public works and debt service decreased approximately \$ 49,000 and \$ 30,000, respectively.
- The City's total cash basis net assets increased 4.9%, or approximately \$ 66,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$ 61,000 and the assets of the business type activities increased approximately \$ 5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by

providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development and general government and debt service. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the waterworks, the sanitary sewer system and the electric distribution system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Road Use Tax and Local Option Sales Tax and [c] the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$ 560,000 to \$ 621,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts		
Program receipts		
Charges for service	\$ 128	131
Operating grants, contributions, and restricted		
Interest	119	94
General receipts		
Property tax	205	201
Local option sales tax	74	64

Unrestricted interest on investments	11	17
Patronage dividend	14	-
Note Proceeds	90	-
Other general receipts	-	15
	<u>641</u>	<u>522</u>
Total receipts		
Disbursements		
Public safety	199	62
Public works	163	213
Health and social services	1	-
Culture and recreation	67	55
Community and economic development	20	21
General government	62	52
Debt service	68	98
	<u>580</u>	<u>501</u>
Total disbursements		
Change in cash basis net assets	61	21
Cash basis net assets beginning of year	560	539
	<u>621</u>	<u>560</u>
Cash basis net assets end of year		

The City's total receipts for governmental activities increased 22.9% or \$ 119,000. The total cost of all programs and services increased by approximately \$ 79,000, or 15.7% with no new programs added this year. The increase in receipts was primarily the result of proceeds received from the issuance of a note for the purchase of a new ambulance.

Property tax receipts increased approximately \$ 4,000 from 2008 to 2009 and are budgeted to decrease \$ 10,000 next year.

The cost of all governmental activities was \$ 580,000 compared to \$ 501,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 333,000 because some of the cost was paid by those directly benefited from the programs (\$ 128,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 119,000). Overall, in 2009, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased approximately \$ 22,000 to approximately \$ 247,000, principally due to receiving a Federal disaster grant. The City paid for the remaining "public benefit" portion of governmental activities with \$ 279,000 in tax (some of which could only be used for certain programs) and with other receipts such as interest, general entitlements

and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts		
Program receipts		
Charges for service		
Water	\$ 68	73
Sewer	75	81
Electric	496	526
General receipts		
Unrestricted interest on investments	18	-
Miscellaneous	5	-
Total receipts	<u>662</u>	<u>680</u>
Disbursements		
Water	88	65
Sewer	90	68
Electric	<u>479</u>	<u>438</u>
Total disbursements	<u>657</u>	<u>571</u>
Change in cash basis net assets	5	109
Cash basis net assets beginning of year	<u>780</u>	<u>671</u>
Cash basis net assets end of year	<u>\$ 785</u>	<u>780</u>

Total business type activities receipts for the fiscal year were \$ 662,000 compared to \$ 680,000 last year. The cash balance increased by approximately \$ 5,000. Total disbursements for the fiscal year decreased by 15.1% to a total of \$ 657,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Earlville completed the year, its governmental funds reported a combined

fund balance of \$ 621,437, an increase of over \$ 61,000 from last year's total of \$ 560,027. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 24,765 from the prior year to \$ 395,471. The City received an unanticipated insurance dividend of nearly \$ 14,000, which accounted for a majority of the increase.
- The Road Use Tax Fund cash balance decreased by \$ 15,986 from the prior year to \$ 22,553. This decrease was the result of less street maintenance being financed through the Local Option Sales Tax Fund.
- The Local Option Sales Tax Fund cash balance increased by \$ 44,918 to \$ 136,145. This increase was due to less spending on streets as mentioned previously.
- The Debt Service Fund cash balance increased by \$ 6,880 to \$ 48,067. This increase was due to collection of unbudgeted receipts of \$ 3,276.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$ 18,309 to \$ 62,916. The decrease was due to payment of a portion of the water revenue notes.

The Sewer Fund cash balance decreased by \$ 10,530 to \$ 141,789, due to some major repairs being incurred in fiscal 2009.

The Electric Fund cash balance increased by \$ 33,314 to \$ 579,891, a smaller increase than in 2008, primarily due to higher electric rates charged to the City and less consumer usage.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 11, 2009, and resulted in an increase in budgeted disbursements and transfers of \$101,100. The additional disbursements related to community improvement projects and street maintenance.

The City's receipts were \$ 113,633 more than budgeted. This was primarily due to the City receiving more for utility service charges and local option sales tax than had been anticipated.

DEBT ADMINISTRATION

At June 30, 2009, the City has \$ 739,250 in long-term debt compared to \$ 775,800 last year, as shown in the following.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2009	2008
General Obligation Notes	\$ 195,050	163,400
Revenue Notes	98,200	121,400
Lease Purchase Agreement	<u>446,000</u>	<u>491,000</u>
	<u>\$ 739,250</u>	<u>775,800</u>

Debt decreased as a result of regular debt amortization.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 195,090 is significantly below its constitutional debt limit of \$ 1.430 million

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Earlville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. Nationally, the country is in the depths of a recession, with unemployment reaching 9.4%. However, state-wide things do not look as bleak with unemployment at 6.1%.

The City's population has steadily increased over the last 30 years, from 751 to 900. In the last year taxable valuation rose 11.1%

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$ 1.142 million, a decrease of 1.5% under the fiscal 2009 budget. No borrowing is anticipated in 2010, the major cause for the budgeted revenue decrease. Because revenues are expected to be stagnant, no new major programs or initiatives are anticipated for fiscal year 2010. In fact, budgeted disbursements are expected to decrease by \$ 85,000 from the final fiscal 2009 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$ 62,000 by the close of 2010.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Linda Gaul, City Clerk; 12 Southside Road, Earlville, Iowa 52038.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EARLVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2009

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 199,112	53,091	6,141	(139,880)	0	(139,880)	
Public works	163,640	44,978	98,754	(19,908)	0	(19,908)	
Health and social services	400	0	0	(400)	0	(400)	
Culture and recreation	66,653	21,288	2,968	(42,397)	0	(42,397)	
Community and economic development	20,232	0	4,124	(16,108)	0	(16,108)	
General government	61,912	6,251	6,620	(49,041)	0	(49,041)	
Debt service	68,233	2,237	853	(65,143)	0	(65,143)	
Total governmental activities	580,182	127,845	119,460	(332,877)	0	(332,877)	
Business type activities:							
Water	88,471	68,406	0	0	(20,065)	(20,065)	
Sewer	89,651	74,981	0	0	(14,670)	(14,670)	
Electric	479,459	495,916	0	0	16,457	16,457	
Total business type activities	657,581	639,303	0	0	(18,278)	(18,278)	
Total	\$ 1,237,763	767,148	119,460	(332,877)	(18,278)	(351,155)	
General Receipts:							
Property and other city tax levied for:							
General purposes				155,424	0	155,424	
Tax increment financing				24,979	0	24,979	
Debt service				24,200	0	24,200	
Local option sales tax				74,100	0	74,100	
Unrestricted interest on investments				11,355	17,561	28,916	
Patronage dividends				13,939	0	13,939	
Note proceeds				90,000	0	90,000	
Miscellaneous				290	5,192	5,482	
Total general receipts				394,287	22,753	417,040	
Change in cash basis net assets				61,410	4,475	65,885	
Cash basis net assets beginning of year				560,027	780,121	1,340,148	
Cash basis net assets end of year				\$ 621,437	784,596	1,406,033	
Cash Basis Net Assets:							
Restricted:							
Streets				\$ 158,698	0	158,698	
Urban renewal purposes				9,844	0	9,844	
Debt service				48,067	0	48,067	
Other purposes				9,357	0	9,357	
Unrestricted				395,471	784,596	1,180,067	
Total cash basis net assets				\$ 621,437	784,596	1,406,033	

See notes to financial statements.

Exhibit B

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2009

	Special Revenue			Debt Service	Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Local Option Sales Tax			
Receipts:						
Property tax	\$ 135,241	0	0	24,014	18,925	178,180
Tax increment financing	0	0	0	0	24,979	24,979
Other city tax	1,102	0	74,100	186	155	75,543
Licenses and permits	3,036	0	0	0	0	3,036
Use of money and property	12,773	0	2,624	853	402	16,652
Intergovernmental	55,799	74,673	0	0	0	130,472
Charges for service	80,790	0	0	0	0	80,790
Special assessments	3,654	0	0	2,237	0	5,891
Miscellaneous	36,049	0	0	0	0	36,049
Total receipts	328,444	74,673	76,724	27,290	44,461	551,592
Disbursements:						
Operating						
Public safety	199,112	0	0	0	0	199,112
Public works	56,813	90,659	11,510	0	4,658	163,640
Health and social services	400	0	0	0	0	400
Culture and recreation	63,686	0	0	0	2,967	66,653
Community and economic development	20,232	0	0	0	0	20,232
General government	54,646	0	0	0	7,266	61,912
Debt service	0	0	0	68,233	0	68,233
Total disbursements	394,889	90,659	11,510	68,233	14,891	580,182
Excess (deficiency) of receipts over (under) disbursements	(66,445)	(15,986)	65,214	(40,943)	29,570	(28,590)
Other financing sources (uses):						
Note proceeds	90,000	0	0	0	0	90,000
Operating transfers in	28,737	0	0	47,823	0	76,560
Operating transfers out	(27,527)	0	(20,296)	0	(28,737)	(76,560)
Total other financing sources (uses)	91,210	0	(20,296)	47,823	(28,737)	90,000
Net change in cash balances	24,765	(15,986)	44,918	6,880	833	61,410
Cash balances beginning of year	370,706	38,539	91,227	41,187	18,368	560,027
Cash balances end of year	\$ 395,471	22,553	136,145	48,067	19,201	621,437
Cash Basis Fund Balances:						
Reserved for debt service	\$ 0	0	0	48,067	0	48,067
Unreserved:						
General fund	395,471	0	0	0	0	395,471
Special revenue funds	0	22,553	136,145	0	19,201	177,899
Total cash basis fund balances	\$ 395,471	22,553	136,145	48,067	19,201	621,437

See notes to financial statements.

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2009

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for service	\$ 68,406	74,981	495,916	639,303
Operating disbursements:				
Business type activities	50,504	82,182	479,459	612,145
Excess (deficiency) of operating receipts over (under) operating disbursements	17,902	(7,201)	16,457	27,158
Non-operating receipts (disbursements):				
Interest on investments	1,756	3,955	11,850	17,561
Miscellaneous	0	185	5,007	5,192
Debt service	(28,690)	0	0	(28,690)
Capital projects	(9,277)	(7,469)	0	(16,746)
Net non-operating receipts (disbursements)	(36,211)	(3,329)	16,857	(22,683)
Excess (deficiency) of receipts over (under) disbursements	(18,309)	(10,530)	33,314	4,475
Cash balances beginning of year	81,225	152,319	546,577	780,121
Cash balances end of year	\$ 62,916	141,789	579,891	784,596
Cash Basis Fund Balances:				
Unreserved	\$ 62,916	141,789	579,891	784,596

See notes to financial statements.

CITY OF EARLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Earlville is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, The City of Earlville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in two jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Delaware County Joint E911 Service Board and Delaware County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid by other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance paid for with road use tax receipts.

The Local Option Sales Tax Fund is used to account for road construction and maintenance paid for with local option sales tax receipts.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Earlville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assignments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009 the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$ 44,287 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 20,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 58,350	8,321	23,200	4,910	81,550	13,231
2011	45,850	5,814	10,000	3,750	55,850	9,564
2012	45,850	3,807	10,000	3,250	55,850	7,057
2013	11,250	1,800	10,000	2,750	21,250	4,550
2014	11,250	1,350	15,000	2,250	26,250	3,600
2015-2016	22,500	1,350	30,000	2,250	52,500	3,600
Total	\$ 195,050	22,442	98,200	19,160	293,250	41,602

The resolutions providing for the issuance of the revenue notes include the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(4) Lease-purchase Agreement

Annual debt service requirements to maturity for the City's lease-purchase agreement to lease two electric generation units are as follows:

Year Ending June 30,	<u>Lease-purchase Agreement</u> <u>Electric Generation Units</u>	
	Principal	Interest
2010	\$ 47,000	22,465
2011	49,000	20,303
2012	52,000	17,976
2013	54,000	15,428
2014	57,000	12,728
2015-2017	187,000	20,018
Total	<u>\$ 446,000</u>	<u>108,918</u>

The resolution authorizing the implementation of this lease-purchase agreement includes the following:

- (a.) The lease is a limited obligation of the City payable solely from revenues generated from its municipal electric system and other monies made available by the City. The lease shall never constitute a debt of the City within the meaning of any constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the City or a charge against its general credit or general fund. The lease does not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2009, were \$ 7,927 equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, personal leave and sick leave hours for subsequent payment. These accumulations are not recognized as disbursements by the City until paid. The City's approximate liability for earned vacation, personal leave and sick leave payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and personal leave	\$ 4,400
Sick leave	<u>21,900</u>
	<u>\$ 26,300</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax	
	Increment	\$ 25,000
	Emergency	<u>3,737</u>
		<u>28,737</u>
Debt Service	General	27,527
	Special Revenue:	
	Urban Renewal Tax	
	Increment	<u>20,296</u>
		<u>47,823</u>
Total		<u>\$ 76,560</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

Electric fund operating receipts of \$ 495,916 includes receipts from other City funds (primarily the General) of \$ 27,471 which were charges for electric services.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial coverage in any of the past three fiscal years.

(10) Non-Cash Transactions

The City had non-cash investing activities related to the acquisition of equipment as follows:

Acquisition of equipment	\$ 17,413
Trade-in allowance	<u>(11,471)</u>
Cash paid for equipment	<u>\$ 5,942</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EARLVILLE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 178,180	0	178,180	176,808	176,808	1,372
Tax increment financing	24,979	0	24,979	25,000	25,000	(21)
Other city tax	75,543	0	75,543	55,507	55,507	20,036
Licenses and permits	3,036	0	3,036	1,500	2,500	536
Use of money and property	16,652	17,561	34,213	7,000	10,500	23,713
Intergovernmental	130,472	0	130,472	101,500	124,000	6,472
Charges for service	80,790	639,303	720,093	682,000	692,000	28,093
Special assessments	5,891	0	5,891	0	3,700	2,191
Miscellaneous	36,049	5,192	41,241	10,000	10,000	31,241
Total receipts	551,592	662,056	1,213,648	1,059,315	1,100,015	113,633
Disbursements:						
Public safety	199,112	0	199,112	199,901	213,901	14,789
Public works	163,640	0	163,640	161,910	196,010	32,370
Health and social services	400	0	400	800	800	400
Culture and recreation	66,653	0	66,653	87,970	89,970	23,317
Community and economic development	20,232	0	20,232	5,500	30,500	10,268
General government	61,912	0	61,912	66,225	70,225	8,313
Debt service	68,233	0	68,233	71,823	71,823	3,590
Business type activities	0	657,581	657,581	695,215	717,215	59,634
Total disbursements	580,182	657,581	1,237,763	1,289,344	1,390,444	152,681
Excess (deficiency) of receipts over (under) disbursements	(28,590)	4,475	(24,115)	(230,029)	(290,429)	266,314
Other financing sources, net	90,000	0	90,000	100,000	100,000	(10,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	61,410	4,475	65,885	(130,029)	(190,429)	256,314
Balances beginning of year	560,027	780,121	1,340,148	1,114,044	1,340,120	28
Balances end of year	\$ 621,437	784,596	1,406,033	984,015	1,149,691	256,342

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

CITY OF EARLVILLE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-BUDGETARY REPORTING
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 101,100. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EARLVILLE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2009

	Special Revenue			
	Urban Renewal Tax Increment	Employee Benefits	Emergency	Total
Receipts:				
Property taxes	\$ 0	15,191	3,734	18,925
Tax increment financing	24,979	0	0	24,979
Other city tax	0	125	30	155
Use of money and property	180	222	0	402
Total receipts	25,159	15,538	3,764	44,461
Disbursements:				
Operating:				
Public works	0	4,658	0	4,658
Culture and recreation	0	2,967	0	2,967
General government	0	7,266	0	7,266
Total disbursements	0	14,891	0	14,891
Excess of receipts over disbursements	25,159	647	3,764	29,570
Other financing uses:				
Operating transfers out	(25,000)	0	(3,737)	(28,737)
Net change in cash balances	159	647	27	833
Cash balances beginning of year	9,685	8,668	15	18,368
Cash balances end of year	\$ 9,844	9,315	42	19,201
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 9,844	9,315	42	19,201

See accompanying independent auditor's report.

Schedule 2

CITY OF EARLVILLE
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Street improvement	Oct 1, 2001	4.5%	\$ 172,000	68,800	0	17,200	51,600	3,096
Fire station	Jan 15, 2002	4.0	125,000	25,000	0	12,500	12,500	1,000
Fire truck	Nov 30, 2006	4.5	87,000	69,600	0	17,400	52,200	3,132
Ambulance	Aug 13, 2008	4.0	90,000	0	90,000	11,250	78,750	2,655
Total				<u>\$ 163,400</u>	<u>90,000</u>	<u>58,350</u>	<u>195,050</u>	<u>9,883</u>
Revenue notes:								
Water	Jun 29, 1998	5.0%	\$ 155,000	95,000	0	10,000	85,000	4,500
Water	Dec 13, 1999	5.0	132,000	26,400	0	13,200	13,200	990
				<u>\$ 121,400</u>	<u>0</u>	<u>23,200</u>	<u>98,200</u>	<u>5,490</u>
Lease-purchase agreement:								
Electric generation units	Mar 1, 2002	4.40-5.30%	\$ 726,738	491,000	0	45,000	446,000	24,445

See accompanying independent auditor's report.

Schedule 3

CITY OF EARLVILLE
BOND AND NOTE MATURITIES
June 30, 2009

General Obligation Notes

Year Ending June 30,	Street Improvement		Fire Station		Fire Truck		Ambulance		
	Issued Oct 1, 2001		Issued Jan 15, 2002		Issued Nov 30, 2006		Issued Aug 13, 2008		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total
2010	4.5%	\$ 17,200	4.0%	\$ 12,500	4.5%	\$ 17,400	4.0%	\$ 11,250	58,350
2011	4.5	17,200	-	-	4.5	17,400	4.0	11,250	45,850
2012	4.5	17,200	-	-	4.5	17,400	4.0	11,250	45,850
2013	-	-	-	-	-	-	4.0	11,250	11,250
2014	-	-	-	-	-	-	4.0	11,250	11,250
2015	-	-	-	-	-	-	4.0	11,250	11,250
2016	-	-	-	-	-	-	4.0	11,250	11,250
Total		\$ 51,600		\$ 12,500		\$ 52,200		\$ 78,750	195,050

Revenue Notes

Year Ending June 30,	Water		Water		Total
	Issued Jun 29, 1998		Issued Dec 13, 1999		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2010	5.0%	\$ 10,000	5.0%	\$ 13,200	23,200
2011	5.0	10,000	-	-	10,000
2012	5.0	10,000	-	-	10,000
2013	5.0	10,000	-	-	10,000
2014	5.0	15,000	-	-	15,000
2015	5.0	15,000	-	-	15,000
2016	5.0	15,000	-	-	15,000
2017		-		-	-
Total		\$ 85,000		\$ 13,200	98,200

Lease-purchase agreement

Electric Generation Units
Issued Mar 1, 2002

Interest	
Rates	Amount
4.60%	\$ 47,000
4.75	49,000
4.90	52,000
5.00	54,000
5.10	57,000
5.20	59,000
5.25	63,000
5.30	65,000
	<u>\$ 446,000</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Earlville, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 18, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Earlville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Earlville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Earlville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow

management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Earlville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Earlville's financial statements that is more than inconsequential will not be prevented or detected by the City of Earlville's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Earlville's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Earlville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Earlville's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the


City's responses, we did not audit the City of Earlville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Earlville and other parties to whom the City of Earlville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

September 18, 2009


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES;

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee at the City prepares bank account reconciliations, initiates cash receipts and disbursements functions and handles and records cash.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions.

I-B-09 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

- [1] Review the adequacy of financial statement disclosures.
- [2] Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.
- [3] Apply analytical procedures to the draft financial statements.
- [4] Apply other procedures as considered necessary by the City.

Response - We will consider this.

Conclusion - Response accepted.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - Disbursements for the year ended June 30, 2009 did not exceed the amounts budgeted.
- II-B-09 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-09 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-09 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.